

ABBNEY NATIONAL PROPERTY INVESTMENTS

REPORT AND ACCOUNTS

**FOR THE YEAR ENDED
31 DECEMBER 2005**

Registered in England and Wales No. 2412672



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COMPANIES HOUSE 19/04/2006

ABBNEY NATIONAL PROPERTY INVESTMENTS

REPORT OF THE DIRECTORS

The Directors submit their annual report together with the financial statements of Abbey National Property Investments (the "Company") for the year ended 31 December 2005.

1. Principal activities

The principal activity of the Company is that of a property investment company. The Directors foresee no change in its activities. The Company has issued irredeemable preference shares during the year.

2. Results and dividends

The loss for the year on ordinary activities after taxation amounted to £8,863,988 (2004: profit of £6,120,488). The Directors approved and paid Special Dividends of £ 5,205,707 on the irredeemable preference shares in October 2005. The Directors approved a non-cumulative dividend of £6 on the irredeemable preference shares on 14 December 2005.

The Directors do not propose the payment of a dividend for the year on ordinary shares (2004: £nil).

3. Directors and their interests

The Directors who served throughout the year were:

P A Ramsell

D M Green (appointed 1 January 2005)

S P Coles (appointed alternate director to P A Ramsell 21 September 2005)

J L Wright (appointed alternate director to P A Ramsell 21 September 2005)

No Director of the Company has any interests in the shares of the Company, or of other Group Companies incorporated in Great Britain.

4. Directors' responsibility statement

The directors are responsible for preparing their report and financial statements. The directors have chosen to prepare accounts for the company in accordance with International Financial Reporting Standards (IFRSs). Company law requires the directors to prepare such financial statements in accordance with International Financial Reporting Standards, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which comply with the requirements of the Companies Act 1985.

ABBAY NATIONAL PROPERTY INVESTMENTS

REPORT OF THE DIRECTORS (continued)

5. Auditors

In accordance with Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to appoint auditors annually. Accordingly, Deloitte & Touche LLP are therefore deemed to have been re-appointed as auditors of the Company.

By Order of the Board



For and on behalf of
Abbey National Secretariat Services Limited
Secretary

1st March 2006

Registered Office:
Abbey National House
2 Triton Square
Regent's Place
London
NW1 3AN

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ABBEY NATIONAL PROPERTY INVESTMENTS

We have audited the individual company financial statements (the "financial statements") of Abbey National Property Investments for the year ended 31 December 2005 which comprise the income statement, the statement of recognised income and expense, the balance sheet, the cash flow statement and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We also report if, in our opinion, the directors' report is not consistent with the financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with those IFRSs as adopted for use in the European Union, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

18 March 2006

ABBEY NATIONAL PROPERTY INVESTMENTS

Income Statement

For the year ended 31 December 2005

	NOTES	Year ended 31 December 2005 £	Year ended 31 December 2004 £
Continuing operations			
Investment (expense)/income	3	(13,352,172)	7,865,315
Interest receivable	4	738,780	670,052
Finance costs	5	(6,233)	-
Other operating expenses		(15,074)	(405)
(Loss)/profit before tax	6	(12,634,699)	8,534,962
Tax	7	3,770,711	(2,414,474)
Net (loss)/profit attributable to equity holders of the parent		(8,863,988)	6,120,488

All activities of the company are classified as continuing.

Statement of recognised income and expense

For the year ended 31 December 2005

	Year ended 31 December 2005 £	Year ended 31 December 2004 £
Gains on revaluation of available for sale investments taken to equity	26,252	-
Tax on items taken directly to equity	(7,876)	-
Net income recognised directly in equity	18,376	-
(Loss)/profit for the period	(8,863,988)	6,120,488
Total recognised income and expense for the year	(8,845,612)	6,120,488
Attributable to equity holders of the parent	(8,845,612)	6,120,488

ABBEY NATIONAL PROPERTY INVESTMENTS

Balance Sheet

At 31 December 2005

	NOTES	2005 £	2004 £
Non-current assets			
Available for sale financial assets	8	195,907	-
Financial assets at fair value through profit or loss	9	273,814,782	-
Financial assets at amortised cost	10	-	127,903,559
		274,010,689	127,903,559
Current assets			
Trade and other receivables	11	49,291,843	34,885,188
Cash and cash equivalents		106,888	100,679
		49,398,731	34,985,867
Total assets		323,409,420	162,889,426
Current liabilities			
Trade and other payables	12	(9,975,212)	(7,564,958)
Net current assets		39,423,519	27,402,909
Non-current liabilities			
Other borrowed funds	13	(526)	-
Deferred tax	14	(45,285,760)	-
		(45,286,286)	-
Total liabilities		(55,261,498)	(7,564,958)
Net assets		268,147,922	155,324,468
Equity			
Share capital	15	138,180,000	138,180,000
Available for sale reserve	16	66,422	-
Non-distributable capital reserve	17	5,199,480	-
Retained earnings	18	124,702,020	17,144,468
Equity attributable to equity holders of the parent		268,147,922	155,324,468
Total equity		268,147,922	155,324,468

The financial statements were approved by the board of directors and authorised for issue on 1st March 2006.
They were signed on its behalf by: *P. Ramsell*



Director

ABBEY NATIONAL PROPERTY INVESTMENTS

Cash Flow Statement

For the Year ended 31 December 2005

	NOTES	Year ended 31 December 2005 £	Year ended 31 December 2004 £
Net cash from operating activities	19	11,916	67,595
Net cash used in investing activities		-	-
Financing activities			
Dividends paid on preference shares		(5,205,707)	-
Proceeds on issue of preference shares		5,200,000	-
Net cash from financing activities		(5,707)	-
Net increase in cash and cash equivalents		6,209	67,595
Cash and cash equivalents at beginning of year		100,679	33,084
Cash and cash equivalents at end of year		106,888	100,679

ABBEY NATIONAL PROPERTY INVESTMENTS

Notes to the Financial Statements

1. Accounting Policies

Adoption of International Accounting Standards

The Financial Statements have for the first time, been prepared in accordance with International Financial Reporting Standards "IFRS" adopted by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The date of transition to IFRS for the company and the date of its opening IFRS balance sheet was 1 January 2004.

Details of the differences upon adopting IFRS can be found in note 22.

The Company has elected to early adopt IFRS 7 "Financial Instruments Disclosure". As allowed by IFRS 1 and IFRS 7, the Company has not restated its 2004 income statements and balance sheets to comply with IFRS 7.

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

Abbey National Property Investments financial statements have been prepared in accordance with International Financial Reporting Standards "IFRS". The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts.

Revenue recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Financial assets

The entity classifies its financial assets in the following categories: financial assets at fair value through profit or loss account, available-for-sale financial assets and loans and receivables. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through the profit or loss

Financial assets classified in this category are designated as held at fair value on inception. The assets are recognised initially at fair value and transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement as investment income. The assets are derecognised when the rights to receive cash flows have expired or the entity has transferred substantially all the risks and rewards of ownership.

(b) Available for sale

Available for sale investments are non-derivative financial investments that are designated as available for sale and are not categorised into any other category. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale when the cumulative gain or loss is transferred to the income statement. Dividends are recognised in the profit and loss when received. Impairment losses and translation differences on monetary items are recognised in the income statement. The investments are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and which are not designated as available for sale. They arise when the Company provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently measured at amortised cost, using the effective interest method, described above. They are derecognised when the rights to receive cash flows have expired or the Company's has transferred substantially all of the risks and rewards of ownership.

ABBEY NATIONAL PROPERTY INVESTMENTS

Notes to the Financial Statements

1. Accounting Policies (continued)

Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment of financial assets

At each balance sheet date the entity assesses whether, because of one or more events occurring after initial recognition, there is objective evidence that a financial asset or company of financial assets has become impaired. Evidence of impairment may include indications that the borrower or company of borrowers have defaulted, are experiencing significant financial difficulty, or the debt has been restructured to reduce the burden to the borrower.

Income taxes, including deferred income taxes

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available to carry forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and non restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short term investments in securities.

Financial Liabilities

Financial liabilities are measured at amortised cost using the effective interest rate method, except for trading liabilities, which are held at fair value through profit or loss.

Borrowings

Preference shares, which carry a mandatory coupon, or are redeemable on a specified date or at the option of the shareholder, are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Share capital

Incremental external costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

2. Financial risk factors

The company's activity exposes it to a variety of financial risks: market risk (including interest rate risk and house price risk), credit risk and liquidity risk. These risks are managed at a group level and there have been no changes to the risk management programme during the period. The company does not use derivative financial instruments to hedge risk exposures.

Risk management is carried out by the central risk management function of the Abbey Group. Authority flows from the Abbey National plc Board of Directors to the Chief Executive Officer and from him to his direct reports. Delegation of authority is to individuals. Formal standing committees are maintained for effective management or oversight. Their authority is derived from the person they are intended to assist.

ABBEY NATIONAL PROPERTY INVESTMENTS

Notes to the Financial Statements

2. Financial risk factors (continued)

The Company has designated its debt securities as fair value through the profit or loss. The debt securities held by the Company are part of a transaction which is managed on a fair value basis at a group level to eliminate a measurement inconsistency. Because of the method of risk management at a group level, the reversionary interests are reported, and their performance evaluated, to the directors of the Company on a fair value basis. The Company holds a small portfolio of

Equity shares which it has classified as available for sale financial asset. These are not material to the Company from a risk management perspective.

Market risk

Financial assets held at fair value through profit or loss are managed on a fair value basis and are subject to movements in market interest rates, market prices (relating to the UK house price index) and prepayment risk. These risks are managed at a group level by the use of derivative contracts held by other group companies.

Credit risk

The Company holds reversionary interests in property. When the property is sold the Company receives the funds through a third party. The Company is therefore exposed to settlement risk relating to the funds held by the third party not transferred to the Company. These amounts are not material and therefore the Company does not use credit derivatives to mitigate the exposure to credit risk.

Liquidity risk

Liquidity risk is managed by monitoring that the current assets due on demand plus cash and cash equivalents are always greater than the current liabilities due on demand.

Fair value estimation

The fair value of a property reversion is the applicable percentage share of the estimated net present value of the property value at the expected date of the reversion of the property. This is calculated using an internally developed model applying forward growth estimates to current market values until the expected date of reversion.

Current market values are based on valuations by experienced property valuers. The estimated growth of the property value is based on assumptions relating to the growth in the house price index. The expected dates of reversion are based on the estimated length of time a property will be occupied. The interest rate used to discount the future value is based on the funding rates for the group.

The Company does not calculate sensitivities on this model because the movements in fair value are managed and hedged on a group basis.

3. Investment income/(expense)

	Year ended 31 December 2005 £	Year ended 31 December 2004 £
Continuing operations		
Income from financial assets designated at fair value through Profit or Loss	(13,355,078)	-
Income from available for sale investments	2,906	-
Profit on property reversions	-	7,820,176
Income from equity investments	-	45,139
	(13,352,172)	7,865,315

4. Interest receivable

	Year ended 31 December 2005 £	Year ended 31 December 2004 £
Continuing operations		
Interest receivable from parent undertakings	621,731	599,044
Other	117,049	71,008
	738,780	670,052

ABBEY NATIONAL PROPERTY INVESTMENTS

Notes to the Financial Statements

5. Finance costs

	Year ended 31 December 2005	Year ended 31 December 2004
	£	£
On other borrowing costs	6,233	-
	6,233	-

Further details in respect of other borrowing costs are shown in notes 13 and 17.

6. Profit from operations

The audit fee for 2005 has been paid on the Company's behalf by its parent company, Abbey National plc, for which no recharge has been made (2004 - £nil).

Directors' emoluments are borne by the parent company, Abbey National plc. No emoluments were paid to Directors by the Company during the year (2004 - £nil) and it is not practicable for the parent to apportion Directors' emoluments.

The Company has no employees (2004 - none). No management fee for administration services is charged by the parent company (2004 - £nil).

7. Tax

	Year ended 31 December 2005	Year ended 31 December 2004
	£	£
Current tax:		
UK Corporation tax	(3,095,291)	(2,414,474)
Deferred tax (note 14)	6,866,002	-
	3,770,711	(2,414,474)

Corporation tax is calculated at 30% (2004: 30%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	Year ended 31 December 2005		Year ended 31 December 2004	
	£	%	£	%
(Loss)/Profit before tax	(12,634,699)	100	8,534,962	100
Tax at the UK corporation tax rate of 30% (2004: 30%)	3,790,410	(30)	(2,560,489)	30
Tax effect of expenses that are non-deductible in determining taxable profit	(19,699)	-	146,015	(2)
Tax expense and effective tax rate for the year	3,770,711	(30)	(2,414,474)	28

8. Available for sale financial assets

	2005	2004
	£	£
Fair value of equity investment	195,907	-
	195,907	-

The equity investments are listed on a recognised stock exchange.

Due to the adoption of IAS 39 the Company has classified investments at available for sale on the basis that doing so significantly reduces a measurement inconsistency that would otherwise arise from measuring these assets on a different basis. This change was applied prospectively from 1 January 2005, refer to note 22.

ABBEY NATIONAL PROPERTY INVESTMENTS

Notes to the Financial Statements

9. Financial assets held at fair value through profit or loss

	2005 £	2004 £
Debt securities – interest in property reversions	273,814,782	-
	273,814,782	-

The interests in property reversions have no contractual maturity date. The maturity of the reversions is based on third party sales of property over a period estimated to be greater than 5 years.

The Company has designated the assets at fair value through profit or loss as they are managed, evaluated and reported on a fair value basis in accordance with documented risk management strategy.

The fair value adjustment at 1 January 2005 has been taken to opening retained earnings. For further details refer to note 21.

10. Financial assets at amortised cost

	Property reversion £	Equity Investments £	Total £
Cost			
At 1 January 2004	132,196,948	120,135	132,317,083
Additions in the year	-	-	-
Disposals in the year	(4,394,407)	(19,117)	(4,413,524)
Cost and net book value at 31 December 2004	127,802,541	101,018	127,903,559

11. Trade and other receivables

	2005 £	2004 £
Amounts due from group companies	49,291,843	34,885,188
	49,291,843	34,885,188

Trade and other receivables are classified as loans and receivable and held at amortised cost.

The directors consider that the carrying amount of trade receivables approximates to their fair value. Amounts are repayable on demand. The amount due includes £16,015,393 (2004:£15,395,502) which accrues interest at 4.19% (2004: 4.19%). This represents the maximum exposure the company has to interest rate risk.

The remaining balance is non interest bearing.

12. Trade and other payables

	2005 £	2004 £
Amounts due to group companies	6,274,534	3,859,273
Amounts due to group companies in respect of group relief	3,514,984	2,834,953
Trade payables	185,694	870,732
	9,975,212	7,564,958

Trade and other payables are held at amortised cost. The directors consider that the carrying amount of trade payables approximates to their fair value. The amounts are non interest bearing and repayable on demand.

13. Other borrowed funds

	2005 £	2004 £
Preference Shares	520	-
Preference Shares – accrued non-cumulative dividend	6	-
	526	-

Preference Shares

On 14 October 2005 52,000 irredeemable preference shares were issued at a nominal value of £0.01 each and a share premium of £99.99 each. Under the terms of the preference shares, the holder is entitled to special dividends and to a 5% annualised non-cumulative dividend which accrues on a daily basis. Special dividends of £5,205,707 were paid in October 2005. The first of the non-cumulative dividends of £6, included within borrowing costs, was accrued on 31 December 2005 and paid on 3 January 2006.

ABBEY NATIONAL PROPERTY INVESTMENTS

Notes to the Financial Statements

13. Other borrowed funds (continued)

On winding up, the preference shareholders have a preferential right to paid up capital together with any dividend payable and accrued up to and including the date of winding up.

Preference shareholders are entitled to attend and vote at a General Meeting of the company where a resolution to abrogate or vary any of the rights and privileges attaching to the preference shares is proposed.

The directors estimate the fair value of the liability component of the preference shares at 31 December 2005 to be approximately £526. This fair value has been calculated by discounting the future cash flows at the market rate.

14. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the company and the movements thereon during the current and prior reporting year.

	£
At 1 January 2004	-
Charge to income	-
At 31 December 2004	-
Tax effect of IFRS prospective adjustments	(52,143,886)
Charge to income	6,866,002
Credit to equity	(7,876)
At 31 December 2005	(45,285,760)

The deferred tax liability arises on the difference between the accounting and tax treatment of fair value movements on Financial Assets.

15. Share capital

	2005 £	2004 £
Authorised:		
350,180,000 ordinary shares of £1 each	350,180,000	350,180,000
Issued and fully paid:		
138,180,000 ordinary shares of £1 each	138,180,000	138,180,000

There was an issue of irredeemable Preference Shares during the year. These have been classified as financial liabilities in accordance with IFRS and disclosed in note 13.

16. Available for sale reserve

	£
Balance at 31 December 2004	-
IFRS prospective adjustment relating to available for sale financial assets	48,046
Balance at 1 January 2005	48,046
Gains on revaluation of available-for-sale investments taken to equity	26,252
Tax on items taken directly to equity	(7,876)
Balance at 31 December 2005	66,422

17. Non-distributable capital reserve

	£
Balance at 31 December 2004 and 1 January 2005	-
Special Dividends paid on the irredeemable Preference Shares	5,205,707
Accretion of preference share dividends charged to other borrowing costs	(6,227)
Balance at 31 December 2005	5,199,480

ABBEY NATIONAL PROPERTY INVESTMENTS

Notes to the Financial Statements

18. Retained earnings

	£
Balance at 1 January 2004	11,023,980
Net profit attributable to the parent	6,120,488
Balance at 31 December 2004	17,144,468
IAS prospective adjustment	121,621,020
Balance at 1 January 2005	138,765,488
Transfer to Non distributable capital reserve (note 17)	(5,199,480)
Net loss attributable to the parent	(8,863,988)
Balance at 31 December 2005	124,702,020

The amount of the retained earnings as at 31st December 2005 available for distribution has been reduced by £5,199,480 following the payment of Special Dividends on the irredeemable Preference Shares issued during the year.

19. Notes to the cash flow statements

	2005 £	2004 £
(Loss)/profit from operations	(12,634,699)	8,534,962
Finance costs on the issue of preference shares	6,227	-
Decrease in value of investments	27,705,822	4,413,524
Operating cash flows before movements in working capital	15,077,350	12,948,486
Increase in operating receivables	(14,406,655)	(13,251,713)
(Decrease)/increase in operating payables	(658,779)	370,822
Net cash flow from operating activities	11,916	67,595

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

20. Related party transactions

The related party disclosures in this note apply to related parties, which comprise the UK Parent company and fellow subsidiaries.

Trading transactions

During the year, the company entered into the following transactions with related parties who are not members of the company:

	Income		Expenditure		Amounts owed by related parties		Amounts owed to related parties	
	2005 £	2004 £	2005 £	2004 £	2005 £	2004 £	2005 £	2004 £
UK Parent company and fellow subsidiaries	621,731	599,044	-	-	49,291,843	34,885,188	6,274,534	3,859,273
	621,731	599,044	-	-	49,291,843	34,885,188	6,274,534	3,859,273

During the year the Company received interest from group companies.

The above excludes the following dividends paid:

On 14 October 2005 52,000 irredeemable preference shares were allotted to and paid for by a related party Abbey National Treasury Investments. On 17 October 2005 Abbey National Treasury Investments sold the preference shares to Carfax Insurance Limited, another related party. Special dividends of £5,205,707 were paid to Carfax Insurance Limited in October 2005. The first of the non-cumulative dividends totalling £6 was accrued on 31 December 2005 and was paid on 3 January 2006 to Carfax Insurance Limited. The amount owed to Carfax Insurance Limited was £526 at 31 December 2005 (2004: £nil).

Remuneration of key management personnel

There were no related party transactions during the year, or existing at the balance sheet date, with the company or parent company's key management personnel.

ABBEY NATIONAL PROPERTY INVESTMENTS

Notes to the Financial Statements

21. Parent undertaking and controlling party

The company's immediate parent company is Abbey National plc.

The company's ultimate parent undertaking and controlling party is Banco Santander Central Hispano S.A., a company incorporated in Spain. Banco Santander Central Hispano, S.A. is the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the company is a member. Abbey National plc is the immediate parent undertaking of the smallest group of undertakings for which the group accounts are drawn up and of which the Company is a member.

Copies of all sets of group accounts, which include the results of the company, are available from Abbey Secretariat, Abbey National House, 2 Triton Square, Regents Place, London, NW1 3AN.

22. Explanation of transition to International Financial Reporting Standard's

Abbey National plc in line with all listed entities in the European Union ("EU"), was required to adopt International Financial Reporting Standards ("IFRS") in preparing its consolidated financial statements for the year ended 31 December 2005 and has elected to adopt IFRS for all its subsidiary undertakings, unless restricted by local regulations.

Up to 31 December 2004, the Company prepared its financial statements in accordance with UK Generally Accepted Accounting Principals ("UK GAAP").

IAS 32 "Financial Instruments: Disclosure and Presentation", and IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" have been applied prospectively from 1 January 2005. All other standards are required to be applied retrospectively.

Reconciliation of consolidated balance sheet at 1 January 2005

	UK GAAP	Effect of transition to IFRS	IFRS
Non-current assets			
Equity investments	101,018	68,637	169,655
Investments in property	127,802,541	173,744,315	301,546,856
	127,903,559	173,812,952	301,716,511
Current Assets			
Trade and other receivables	34,885,188	-	34,885,188
Cash and cash equivalents	100,679	-	100,679
	34,985,867	-	34,985,867
Total assets	162,889,426	173,812,952	336,702,378
Current liabilities			
Trade and other payables	(7,564,958)	-	(7,564,958)
Net current assets	27,420,909	-	27,420,909
Current liabilities			
Deferred tax	-	(52,143,886)	(52,143,886)
Total Liabilities	(7,564,958)	(52,143,886)	(59,708,844)
Net Assets	155,324,468	121,669,066	276,993,534
Equity			
Share capital	138,180,000	-	138,180,000
Available for sale reserve	-	48,046	48,046
Retained earnings	17,144,468	121,621,020	138,765,488
Total Equity	155,324,468	121,669,066	276,993,534

Reconciliation of profit or loss for 2004

There were no changes to the profit and loss as a result of IFRS as all adjustments have been applied prospectively.

